

PENINSULA COMMUNITY LIBRARY

TRAVERSE CITY, MICHIGAN

**AUDITED FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2004

PENINSULA COMMUNITY LIBRARY

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Peninsula Community Library	County Grand Traverse
Audit Date 6/30/04	Opinion Date 12/16/04	Date Accountant Report Submitted to State: 12/28/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.			
Street Address 928 S. Garfield Ave. Ste. 3		City Traverse City	State MI
Accountant Signature <i>Kalcher, Vanderwal & Torrey, P.C.</i>		ZIP 49686	Date 12/16/04

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

December 16, 2004

Board of Directors
Peninsula Community Library
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of Peninsula Community Library as of and for the year ended June 30, 2004, which collectively comprise Peninsula Community Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Peninsula Community Library management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Peninsula Community Library as of June 30, 2004 and the respective changes in financial position, and respective budgetary comparison for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, along with all related statements and interpretations, as of July 1, 2003.

INDEPENDENT AUDITOR'S REPORT - Continued

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2004 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hecher, Vandewal & Toney, P.C.

Certified Public Accountants

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

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TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 16, 2004

Board of Trustees
Peninsula Community Library
Traverse City, Michigan 49686

We have audited the general purpose financial statements of Peninsula Community Library, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Peninsula Community Library's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described below.

The Library was in noncompliance with its operating budget for the general fund.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Peninsula Community Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Peninsula Community Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition noted is as follows:

Source documents for cash disbursements are not expressly being authorized for payment with signatures or initials of personnel reviewing the original invoice prior to payment. Invoices are not properly defaced after payment has occurred.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The reportable condition described above was not considered to be a material weakness.

This report is intended for the information of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited.

Ralchen, Vandewort & Toung, P.C.

Certified Public Accountants

PENINSULA COMMUNITY LIBRARY
LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR JULY 2003 – JUNE 2004

The MD&A is intended to serve as an overview analysis
of the financial condition and operating results of the library.

Please direct questions regarding this report to:

Victoria Shurly, Library Director
Peninsula Community Library
2735 Island View Road
Traverse City, Michigan 49686
(231) 223-7700

PENINSULA COMMUNITY LIBRARY MANAGEMENT DISCUSSION AND ANALYSIS CONTINUED

Relationship of Financial Statements

The basic financial statements contained herein include information that presents two different views of the Library using the modified-accrual and full accrual methods.

The individual fund balance sheet/statement of net assets and liabilities and the individual fund statement of revenue, expenditures and changes in fund balance include information about the Library's General Fund under the modified-accrual method.

The modified-accrual method focuses on current financial resources. The full-accrual method focuses on long-term economic resources and presents a statement of not only how services were financed in the short-term, but also what remains for future spending. Under the former system, capital outlay is an expense. Under the latter system, capital outlay is capitalized as an asset, resulting in a statement of more net profit.

Under the previous system of fund-based statements, the Library has traditionally accounted for compensated absences under Long Term Debt Transactions. Under GASB 34 requirements, these are now reflected under the statement of net assets.

As this is the first year of the Library management's discussion and analysis report, this year's report does not show comparative data to previous years. In future years, the report will include this information. This is consistent with Governmental Accounting Standards Board Statement Number 34.

The Library as a Whole

The Library's net assets increased by \$28,723 this year over the previous fiscal year. The Library's primary source of revenue is provided by the Traverse Area District Library through an associate library agreement with the District Library to provide library services to the people of Peninsula Township. Under the agreement, the District Library provides an amount not less than .3 mills of the State equalized valuation of taxable property within Peninsula Township to the Peninsula Community Library. This amount is approximately 75% of the year's revenue. Other major sources of revenue include penal fines and State Aid.

Salaries account for the largest expense in the Library's budget, which equates to approximately 56% of total expenditures. Pension plans are offered to the Director and Assistant Director. Employer contributions amount to 13% of covered payroll. No employee contributions were made for the year. Reimbursement for health insurance is offered to the Director up to \$2400 or deferred compensation in the same amount in lieu of health insurance. The Assistant Director is offered reimbursement for health insurance on a pro-rated basis according to hours worked.

The largest non-salary related expenditures are for collection expenditures on books, periodicals and audio-visual materials. These amount to approximately 14% of the budget.

The Library Funds

The Library uses a General Fund to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues, as noted, are derived mainly from property taxes and other intergovernmental revenues.

The Library's Budgetary Highlights

Over the course of the year, the Library Board of Trustees amended the General Fund's budget to address unplanned needs that occurred during the year. The General Fund amendments reflected the purchase and installation of carpeting in the building where the Library rents its space, the purchase of artwork, increased cost of supplies, and higher than anticipated memberships and dues.

Revenues were higher than anticipated due to memorial donations, higher property tax assessments, State Aid and slightly higher penal fund revenues. Interest rates were also higher than expected.

Capital Assets and Long Term Debt Activity

At the end of the fiscal year, the Library had \$167,261 invested in land, furniture, equipment, books, and audio-visual materials. The land is currently unimproved upon. The Library currently rents space from the Traverse City Area School District.

The Library's long-term debt activity consists of capped accumulated compensation employee absences (sick leave, vacation and personal days) for the Director and Assistant Director. When either of these employees terminates employment, they shall be paid one half of the cumulative sick time not to exceed 30 days. Compensatory and vacation time shall be used by the end of every calendar year with the exception that one week may be carried over into the following year. Compensated absences account for \$3,199 of the fiscal year's long term debt activity.

Next Year's Anticipated Budget Factors

The Traverse City Area School District is planning an extensive renovation of the school where the Library leases its space. It is currently unknown whether the Library will be able to remain in the building during reconstruction. The possibility of the need to lease temporary space elsewhere, both for Library operation and storage, could influence next year's expenditures.

**PENINSULA COMMUNITY LIBRARY
STATEMENT OF NET ASSETS
JUNE 30, 2004**

ASSETS

Current Assets

Cash	\$ 7,009
Due from Peninsula Township	257,687
Total Current Assets	<u>\$ 264,696</u>

Noncurrent Assets

Capital assets	\$ 369,449
Less: Accumulated depreciation and amortization	(202,188)
Total Noncurrent Assets	<u>\$ 167,261</u>

Total Assets	<u>\$ 431,957</u>
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LIABILITIES

Current Liabilities

Accrued compensated absences	\$ 1,663
Deferred revenue	1,147
Total Current Liabilities	<u>\$ 2,810</u>

Noncurrent Liabilities

Noncurrent portion of accrued compensated absences	<u>\$ 3,199</u>
Total Liabilities	<u>\$ 6,009</u>

NET ASSETS

Invested in capital assets	\$ 167,261
Unrestricted	<u>258,687</u>
Total Net Assets	<u><u>\$ 425,948</u></u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

				Governmental Activities
				Net (Expense)
				Revenue and
				Changes in
				Net Assets
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	
Governmental activities:				
Cultural and recreation	\$ 135,239	\$ 1,871	\$ 1,300	\$ (132,068)
General Revenues:				
Intergovernmental:				
District Library				\$ 125,908
State aid				4,125
Penal fines				20,295
Investment Income				4,341
Miscellaneous				6,122
Total General Revenues				\$ 160,791
Change in Net Assets				\$ 28,723
Net assets - beginning of year				\$ 392,073
Prior period adjustment				5,152
Net assets - beginning of year - restated				\$ 397,225
Net Assets - End of Year				\$ 425,948

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
GENERAL FUND
BALANCE SHEET
JUNE 30, 2004**

Assets

Cash	\$ 7,009
Due from Peninsula Township	257,687
Total Assets	<u>\$ 264,696</u>

Liabilities and Fund Balance

Liabilities

Accrued compensated absences	\$ 1,663
Deferred revenue	1,147
Total Liabilities	<u>\$ 2,810</u>

Fund Balance

Unreserved	<u>\$ 261,886</u>
Total Liabilities and Fund Balance	<u>\$ 264,696</u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
RECONCILIATION OF THE BALANCE SHEET OF THE GENERAL FUND
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

Fund Balance - Total General Fund \$ 261,886

Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:

Capital Assets Used in Governmental Activities are Not
Financial Resources and are Not Reported in the General Fund:

The Cost of the Capital Assets	\$ 369,449
Accumulated Depreciation	(202,188)

Long Term Obligations are not due and Payable in the Current Period and are Not Reported in the Funds	167,261
	(3,199)

Net Assets - Governmental Activities	<u>\$ 425,948</u>
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The accompanying notes are an integral part of these statements.

PENINSULA COMMUNITY LIBRARY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>				
District Library	\$ 117,300	\$ 117,300	\$ 125,908	\$ 8,608
State aid	3,500	3,500	4,125	625
Penal fines	20,000	20,000	20,295	295
Charges for services	1,210	1,210	1,871	661
Interest and investment earnings	3,000	3,000	4,341	1,341
Other	1,320	1,320	6,122	4,802
Total Revenue	<u>\$ 146,330</u>	<u>\$ 146,330</u>	<u>\$ 162,662</u>	<u>\$ 16,332</u>
<u>Expenditures</u>				
Salaries	\$ 74,107	\$ 74,107	\$ 71,531	\$ 2,576
Life insurance	150	180	176	4
Payroll taxes	6,744	5,448	5,448	-
Pension	8,033	8,033	7,046	987
Insurance and bonds	5,500	5,500	5,435	65
Rental fee	3,000	3,000	3,000	-
Books/periodicals	15,500	15,500	15,493	7
Education and training	1,000	1,000	25	975
Audio visual materials	3,500	3,500	3,266	234
Membership and dues	2,000	2,650	2,636	14
Supplies	2,100	2,250	3,558	(1,308)
Community promotion and activities	3,300	3,300	2,882	418
Contractual services	750	975	970	5
Professional services	6,800	6,800	5,700	1,100
Contingency	3,000	3,000	-	3,000
Communications/telephone	1,100	1,100	1,007	93
Repairs and maintenance	400	400	574	(174)
Miscellaneous	924	1,026	842	184
Capital outlay	2,500	4,950	7,769	(2,819)
Reimbursed expenses	500	3,600	-	3,600
Transfer to community foundation	-	-	350	(350)
Total expenditures	<u>\$ 140,908</u>	<u>\$ 146,319</u>	<u>\$ 137,708</u>	<u>\$ 8,611</u>
<u>Excess Revenues Over Expenditures</u>	<u>5,422</u>	<u>11</u>	<u>24,954</u>	<u>24,943</u>
Fund Balance - Beginning of Year	\$ 231,780	\$ 231,780	\$ 231,780	\$ -
Prior period adjustment	<u>5,152</u>	<u>5,152</u>	<u>5,152</u>	<u>-</u>
Fund Balance - Beginning of Year - Restated	<u>\$ 236,932</u>	<u>\$ 236,932</u>	<u>\$ 236,932</u>	<u>\$ -</u>
Fund Balance - End of Year	<u><u>\$ 242,354</u></u>	<u><u>\$ 236,943</u></u>	<u><u>\$ 261,886</u></u>	<u><u>\$ 24,943</u></u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balance - Total General Fund	\$ 24,954
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental Funds Report Capital Outlays as Expenditures; in the Statement of Activities, these Costs are Allocated over their Estimated Useful Lives as Depreciation:	
Depreciation Expense	(25,014)
Capital Outlay	27,625
Current Year Additional Long Term Liability Portion of Accrued Compensated Absences is not Reported in the Governmental Funds	(142)
In-Kind Donations for Capital Assets Are Not Recorded In the Governmental Funds if They Are Held For Use	1,300
Change in Net Assets of Governmental Activities	<u><u>\$ 28,723</u></u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Peninsula Community Library (the Library) was organized in January, 1999. Prior to that date, the Library's operations were reported in Peninsula Township's financial statements. The Library serves primarily the residents of Peninsula Township, Grand Traverse County, Michigan. The Library operates under an elected Board of Directors consisting of six members.

The criteria established for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service and special financing relationships. Accordingly, the financial statements of the Library contain all Library funds that are controlled by or dependent upon the Library's executive branch.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

Library as a Whole Financial Statements

The Library as a Whole financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The balance sheet includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in two parts - invested in capital assets and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Amounts reported as program revenue include charges to patrons for the use of various Library assets and replacement, service, and damage fees.

Fund Financial Statements

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following governmental fund:

General Fund - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library.

Accounting Change - Effective July 1, 2003, the Library implemented the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34)*, along with all related statements and interpretations. Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

1. A management's Discussion and Analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.
2. Library-wide financial statements (Statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided.
3. The fund financial statements focus on major funds rather than fund types.

Budgets and Budget Accounting

The Library adopts a budget for its governmental type fund as required by Public Act 621 of the State of Michigan. The Library follows these procedures in establishing the budget as reflected in the financial statements:

1. In January or February, the Library Board prepares a preliminary budget for the ensuing fiscal year.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1 - Summary of Significant Accounting Policies (continued)

2. During May, the budget is legally enacted through passage of a resolution. Amendments to the budget are made during the fiscal year, if necessary.
3. The budget is adopted on a basis consistent with the modified accrual method of accounting.

The Library adopted its budget for the year ended June 30, 2004 at its April 14, 2003 meeting and a statement of revenues and expenditures compared to budget for the year is included on page 14. The last amendment to the budget was made on June 28, 2004.

All funds have positive fund balances at June 30, 2004.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. During the year ended June 30, 2004, the Library incurred expenditures in excess of the amount budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over Expended</u>
For the General Fund:			
Supplies	\$ 2,250	\$ 3,558	\$ 1,308
Repairs and maintenance	400	574	174
Capital outlay	4,950	7,769	2,819
Transfer to community foundation	-	350	350

Encumbrance System

The Library does not use an encumbrance system.

Cash and Cash Equivalents

For the purposes of the balance sheet classification, the Library considers all money market accounts and certificates of deposits with maturities of three months or less when purchased to be cash equivalents.

Cash and Deposits

The cash deposits held at financial institutions can be categorized according to three levels of risk.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1 - Summary of Significant Accounting Policies (continued)

These three levels of risk are as follows:

- Category 1 Deposits that are insured or collateralized with securities held by the Library or by its agent in the Library's name.
- Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.
- Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the Library's cash deposits are classified as Category 1.

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of \$ 200 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Leasehold improvements, furniture and equipment, and library books, periodicals, and videos are depreciated using the straight-line method over the following lives:

Leasehold improvements	20 years
Furniture and equipment	5-30 years
Library books and audiovisual materials	6 years

Compensated Absences

Employees may use their accumulated compensated absences for vacation, illness, or personal days off. An employee who terminates services will be paid one-half of the cumulative sick time not to exceed 30 days. Compensatory and vacation time shall be used by the end of every calendar year with the exception that one week may be carried into the following year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 2 - Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation repurchase agreements.
- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150

Certain other restrictions also apply including a requirement for the Board of Directors to formally adopt an Investment Policy that includes specified matters.

**PENINSULA COMMUNITY LIBRARY
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Note 3 - Due From Peninsula Township

Peninsula Township maintains a trust account for the Library and acts as the financial agent of the Library. This trust account had \$ 257,687 of the Library monies as of June 30, 2004.

Note 4 - Capital Assets

Capital asset activity of the Library was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Assets Not Being Depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Other Capital Assets:				
Leasehold improvements	\$ -	\$ 7,208	\$ -	\$ 7,208
Furniture and Equipment	61,060	1,656	-	62,716
Library collection	229,614	19,911	-	249,525
Subtotal	<u>\$ 290,674</u>	<u>\$ 28,775</u>	<u>\$ -</u>	<u>\$ 319,449</u>
Accumulated depreciation and amortization				
Leasehold improvements	\$ -	\$ 180	\$ -	\$ 180
Furniture and Equipment	15,595	3,365	-	18,960
Library collection	161,580	21,468	-	183,048
	<u>\$ 177,175</u>	<u>\$ 25,013</u>	<u>\$ -</u>	<u>\$ 202,188</u>
Net Other Capital Assets	<u>113,499</u>	<u>3,762</u>	<u>-</u>	<u>117,261</u>
Net Capital Assets	<u>\$ 163,499</u>	<u>\$ 3,762</u>	<u>\$ -</u>	<u>\$ 167,261</u>

Depreciation and amortization for the year ended June 30, 2004 amounted to \$ 25,013. The Library has only one program and therefore there is no allocation necessary for the Statement of Activities.

**PENINSULA COMMUNITY LIBRARY
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Note 5 - Intergovernmental Revenue

Traverse Area District Library provides an amount not less than .3 mills of the State equalized valuation of taxable property within Peninsula Township to Peninsula Community Library. Peninsula Community Library entered into an associate library agreement with the District Library to provide enhanced library services. Revenue for the twelve months ended June 30, 2004 was \$ 125,908.

Note 6 - Leases

The Library leases a building from a local governmental unit for \$ 3,000 per year; the lease is indefinite and shall remain in effect until there are any changes to it.

Note 7 - Risk Management

The Library carries coverage for property damage, liability, wrongful acts and crime claims. Also, the Library has purchased from a commercial carrier worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 - Pension Plan

The Library participates in Peninsula Township's defined contribution (money purchase) pension plan through Manufacturer's Life Insurance Company. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the Library for the year ended June 30, 2004 was \$ 49,447. Total payroll for the year ended June 30, 2004 was \$71,531. Employer contributions are based upon a percentage of annual payroll. Employees may make additional contributions if they so desire. Employees are vested 100% in employer contributions after 20 months of service.

The Library fully funded its required contribution for the year ended June 30, 2004. Current year employer contributions amounted to \$ 6,428, or 13% of the covered payroll. There were no employee contributions this year.

None of the plan's assets are invested in the Township securities or those of related parties. There are no loans from the plan to the Township.

**PENINSULA COMMUNITY LIBRARY
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Note 9 - Trust Funds

The Peninsula Community Library is the beneficiary of a fund established at the Grand Traverse Regional Community Foundation. \$ 350 was transferred to the fund by the Library during the year ended June 30, 2004. No income was received from this fund during the year. Total assets in the fund at June 30, 2004 amounted to \$ 48,686 of which \$ 10,129 is available for distribution upon recommendation of a fund advisory board, subject to a variance power held by the Foundation. \$ 38,557 is held in a permanent endowment fund and is not available for distribution. The assets held in the fund are not recorded in the financial statements of the Peninsula Community Library because they are subject to a variance power held by the Foundation which allows the Foundation, in it's sole discretion, to change the beneficiary or withhold amounts from distribution.

Note 10 - Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the United States Conference of Mayors (USCM) who has designated Public Employees Benefit Services Corporation (PEBSCO) to act as its agent. The plan, available to all Library employees, permits them to defer a portion of their salary until future years.

All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries.

Note 11 - Long Term-Debt

Summary of Long-Term Debt Transactions:

	Beginning Balance 6/30/03	Additions	Ending Balance 6/30/04
Compensated absences	\$ 3,056	\$ 143	\$ 3,199

Note 12 - Prior Period Adjustment

Beginning net assets and unreserved fund balance have been adjusted for \$ 5,152 of interest income applicable to previous years which was not reported to the Library by Peninsula Township on a timely basis. This adjustment increases the beginning net assets - unrestricted and unreserved fund balance by the above amount. Previous years' net income would have been understated in the aggregate by the above amount.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
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Note 13 - Contingencies

The school where the Library leases its space is expected to undergo extensive renovation in the near future. It is unknown whether the Library will need to relocate during the renovation. There is a possibility that the Library will need to lease temporary space elsewhere for operation and storage. The possible costs of moving and rent is not currently known.